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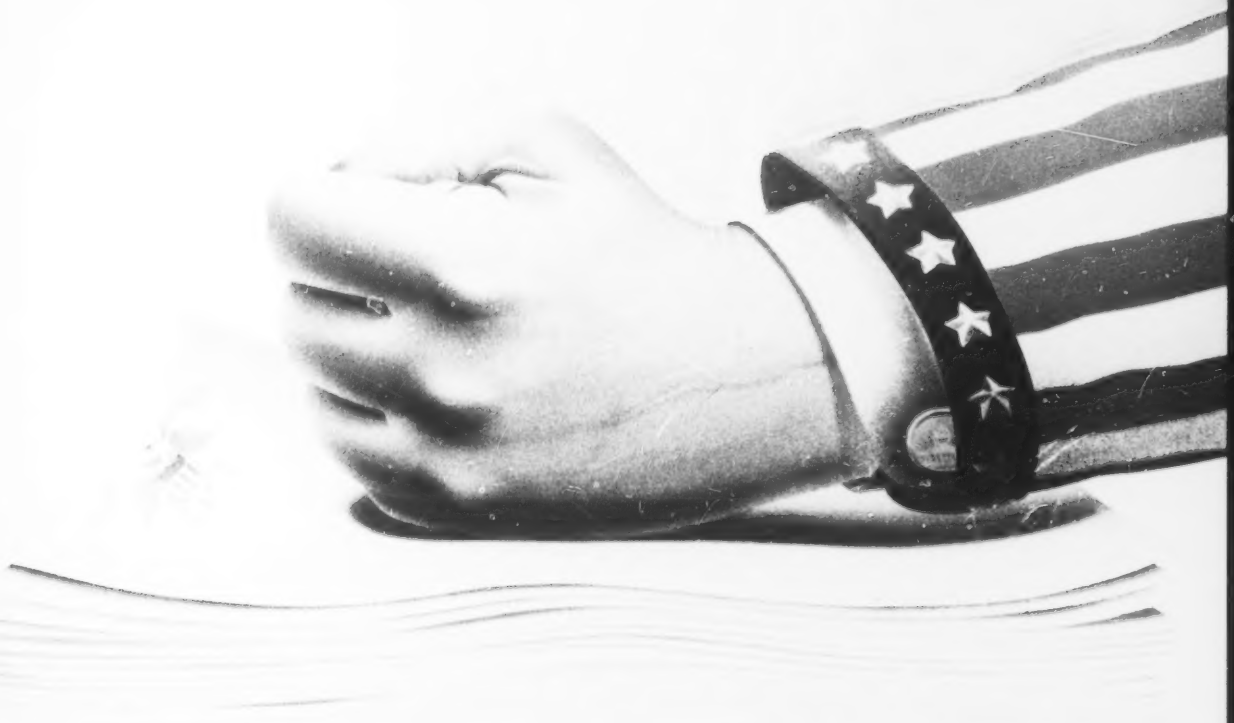
U.S. TO ITS TRADING PARTNERS:

"NO MORE MR. NICE GUY"



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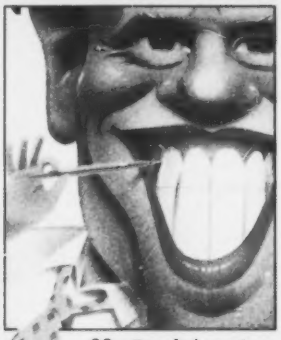

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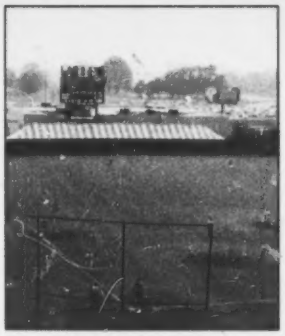

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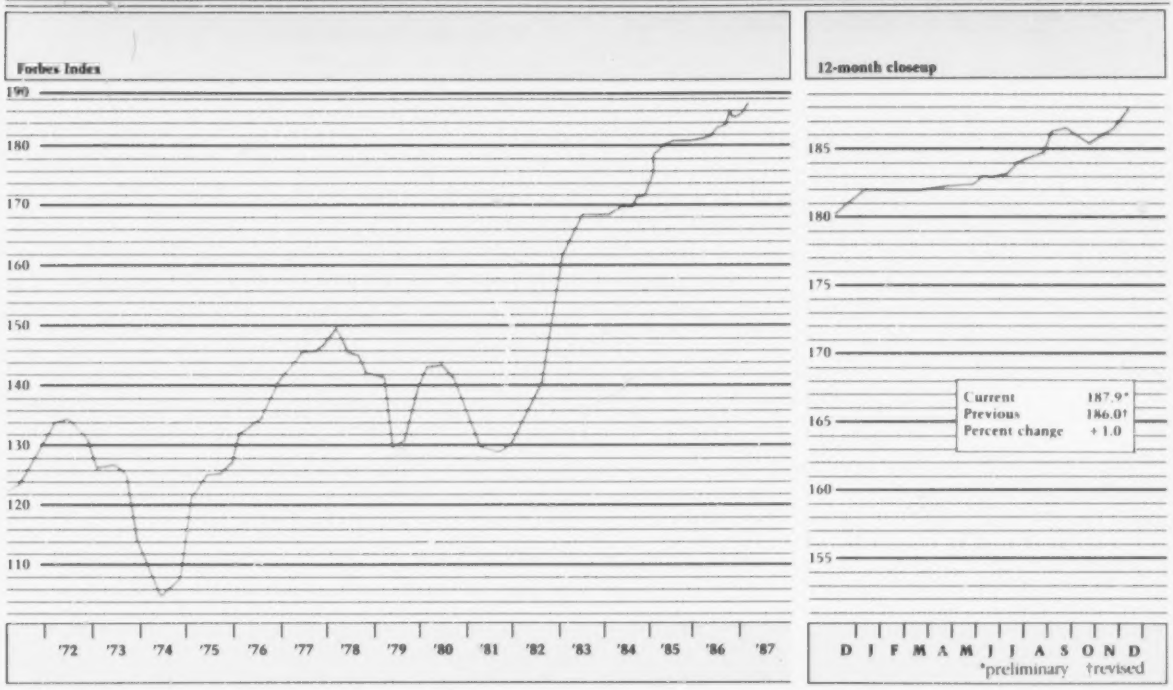
The Forbes Index



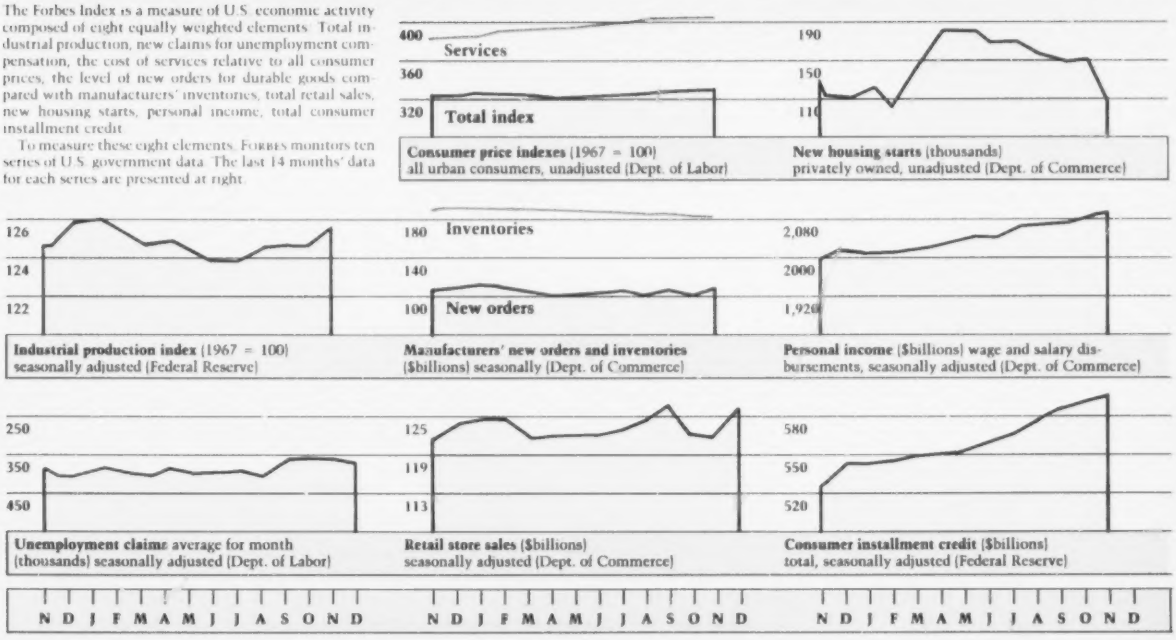
Tax spending. The Forbes Index posted a 1% gain during the latest reporting period and currently stands 5.3% higher than one year ago. Boosting the Index were retail sales, which shot up 4.4% in December as consumers continued their assault on big-ticket items. Also pushing up the Index was consumer installment credit, which increased 0.7% in November, to $596 billion, or roughly 20% of one year's disposable personal income.

Consumer spending notwithstanding, the economy remains sluggish. New unemployment claims, for example, increased 2.3% from November to December, the sharpest month-to-month jump since last February. Despite a weakening dollar, the Federal Reserve may cut interest rates again in order to stimulate the economy.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, Forbes monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


400
Services
360
320
Total index
190
150
110
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
126
124
122
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
180
Inventories
140
100
New orders
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
2,080
2000
1,920
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
350
450
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
125
119
113
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
580
550
520
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
N D J F M A M J J A S O N D
N D J F M A M J J A S O N D
N D J F M A M J J A S O N D

From the murky depths of subsidiaries it rises. Terrifying and huge, it stalks the corporate balance sheets.

Invisible debt

By Laura Jereski

PICTURE THIS: It's early 1988, and you've just received your General Motors 1987 annual report. You sit down with a cup of coffee while you skim the statement. This shouldn't take long—but wait a minute. What's this? It seems that in the space of a single year GM's short-term debt has gone from next to nothing to nearly $53 billion. What's happened? Has GM secretly acquired Belgium? Nope. It's just more magic from the accounting profession.

If the Financial Accounting Standards Board has its way, investors in hundreds of companies like General Motors will suddenly discover that the companies are deeper in debt than they previously thought. The list of firms affected includes Deere & Co., Textron, Gulf & Western, Xerox, IBM and many, many more.

The change will come in the way companies consolidate their subsidiaries. In years past, companies with subsidiaries in finance, real estate, insurance and leasing have not been forced to combine the financial subsidiaries' liabilities with their own. Yet at the same time, they have added the net income and equity of the subs to their own. The parent company gets a boost from the subsidiary without having to reflect its debt—in short, a free ride.

But now, if the Board's ruling passes, the ride will come to a skidding halt, as all that debt, buried in the balance sheets of subsidiaries, gets unearthed on the balance sheets of the parent corporations *(see table)*.

The old, nonconsolidation rule was based on the idea that finance, real estate and insurance subsidiaries use capital so differently from their parents that a combined balance sheet would be meaningless. But the logic behind the change is that a corporation is an economic entity and shouldn't have arbitrary distinctions between its components. "If you consolidate one subsidiary, you ought to consolidate all," says Paul Rosenfield, director of accounting standards at the American Institute of CPAs.

Unconsolidated balance sheets can conceal plenty when most of a sub's business comes from a parent. The three auto manufacturers alone have over $125 billion of liabilities in their finance subs that don't show up on their balance sheets.

Take General Motors. By last fall the company had unloaded 5 million cars and trucks from its bloated inventory by offering buyers incentives, including 2.9% financing. The resulting $78 billion in short- and long-term debt it had to take on to offer such giveaway finance rates got squirreled away on the unconsolidated balance sheet of General Motors Finance Corp., the company's captive finance subsidiary. That left GM itself with a seemingly gilt-edged third-quarter debt-to-equity ratio of 0.2-to-1, instead of a much more leveraged—and accurate—ratio of $2.80 of debt to each dollar of equity.

Do consolidated numbers really present a fairer picture of the complete company? Says John Vivian, comptroller at Sears, "It would be very difficult to perform any analyses on our consolidated statements if one were not able to see the pieces."

Take a firm like ITT. More than half its assets presently aren't shown on its balance sheet, because they belong to ITT's insurance company, Hartford Fire Insurance. But say that the two statements were consolidated. Would ITT bondholders or shareholders be right to conclude that their company suddenly acquired a huge new source of assets they could reach for in the event of a liquidation? No way. In reality, first claim goes to Hartford Fire policyholders.

It seems as if there's no winning. If you don't consolidate, firms can shuffle away their problems into subsidiaries. If you do consolidate, the problems can often disappear into huge, unrevealing numbers.

One sensible solution comes from Arthur Andersen partner Benjamin Neuhausen, who argues that the accounting profession should consider a "tiered" balance sheet. "If major categories, such as debt or fixed assets, were dissected by major lines of business, the balance sheet would show exactly what corporate assets and liabilities really do exist at the subsidiary level—and how much they contribute to the parent company itself." ■

Surprise!

These companies, like many others, let unconsolidated subsidiaries hide much of the debt. Not for much longer.

Company	—Total debt-to-equity ratio*— old method	new method	% increase
Textron	1.3:1	3.3:1	154%
General Motors	0.2:1	2.8:1	1,300
Ford Motor	0.2:1	2.2:1	1,000
Chrysler	0.5:1	3.8:1	660
Deere	0.8:1	1.9:1	138
Gulf & Western	0.8:1	3.1:1	288
American Can†	0.7:1	1.1:1	58
ITT†	0.6:1	1.5:1	150

*Total debt = long- and short-term debt. †Predivestiture.

Ferguson: Since 1975 Japan's share of world semiconductor capital equipment markets rose from 15% to about 40% now. Their production technology is better than ours. The most striking differences are in maskmaking, direct steppers, high-performance automatic testing equipment and in automatic or robotized assembly equipment. Often this advanced equipment is supplied to Japanese semiconductor companies by other units within their own *keiretsu*, or business group. Increasingly, human beings are being eliminated from manufacturing as finer lithography and increasing complexity demand more sophisticated automation and clean-room technology.

In 1985 Japanese firms suddenly entered maskmaking, taking a big share of the $250 million world market from about 15 underfunded U.S. startups. Mask quality has a major effect on production yields, which is critical to costs. As lithography improved, E-beam etching equipment and precision laser-based defect removal systems became a must, raising the minimum efficient investment scale from $2 million five years ago to nearly $20 million today. Maskmaking also needs high-quality glass. The main supplier in the 1970s was Corning Glass, but now it's Hoya, a Japanese firm that also competes in maskmaking, and Shin-Etsu. Two other big Japanese companies have entered the fray, meaning that several U.S. maskmakers probably will go broke.

What does this mean? It means that, more and more, the next generation of downstream technologies in chips, and then the next generation after that in semiconductor-intensive goods, such as computers, will be Japanese inventions. The U.S. will play a smaller role in the invention and use of those technologies. Destroying the U.S. chip industry makes our downstream sectors depend on Japanese technology. Japanese firms then can either withhold technology, extract monopoly profits or force U.S. companies into subordinate relationships—like Amdahl and Fairchild to Fujitsu, Honeywell to NEC.

Can't we extract technology from them as they extract from us?

Ferguson: The Japanese don't share technology as readily as we do. They're still heavily dependent upon our semiconductor market, but their dependence is declining daily. Their per capita consumption of semiconductors is approximately twice as high as it is in the U.S.

There are still chances to get technology from Japan. But they all are dependent upon an exercise of national will, and a degree of cohesion and strategic sophistication, that the U.S. industry and the U.S. government haven't exhibited to date. The new semiconductor trade agreement shows this kind of strategic naiveté on the part of the U.S. government, and short-term, self-destructive thinking by the U.S. industry. The U.S. industry lobbied for almost exactly the deal they got, limiting Japanese penetration of the U.S. market through exports and putting a price floor on memory chips. The high price gives a windfall to low-cost Japanese and Korean chipmakers and helps big Japanese computer makers, making their chips in-house, while penalizing U.S. firms that buy chips on the open market. The deal didn't ban Japanese direct foreign investment. What the U.S. got was a situation in which the only way that the Japanese could continue to progress was by buying the U.S. semiconductor industry. So Fujitsu just bought 80% of Fairchild. Then Motorola signed a joint venture enabling Toshiba to make 32-bit microprocessors in Japan. Motorola has 57% of the world market for these products, but is under financial pressure and must acquire Japanese-quality process technology. Within the next 18 months, much of U.S. semiconductor production will be directly or indirectly under Japanese control.

Five years from now Japanese companies will market very competitive computers based on high-performance semiconductor technologies, which then will not be available to the U.S. industry.

How are the Japanese winning computer market share?

Ferguson: They begin with a local company selling Japanese products. In the U.S., Amdahl sells Fujitsu computers and uses Fujitsu components in Amdahl computers. National Advance Systems sells Hitachi computers and Honeywell sells NEC computers. In Germany, Siemens and BASF sell Fujitsu and Hitachi machines respectively. In Britain, ICL sells Fujitsu, and so on. In 1985 Fujitsu's sales outside Japan rose by 57%.

While relying on local sales and service, the Japanese firms learn enough about these various foreign markets to sell and support their products on their own. Within five years, they will be selling their products in the U.S., Europe and other markets on a much larger scale, harvesting more of the value added in sales and support. Their share of the U.S. mainframe market, which is half the world market, rose from 5% in 1980 to 10% in 1986, as their U.S. sales rose from $700 million to $1.5 billion. But Japan's penetration of Europe's computer market will be slower than in the U.S., because of European political decisions to block Japanese control. ■

If Congress slaps duties on imports, who gets hurt? Among others, IBM, GE and GM.

We've met the enemy, and they are us?

By Edwin A. Finn Jr. and Kathleen Healy

CONGRESS AND THE Reagan Administration are starting to act tough about restricting imports. They have little choice, but nobody should think the restrictions will be painless. Among those feeling the worst pain will be our own multinationals. Some 15% of our imports come not from Korean, German or Japanese companies but from foreign affiliates of U.S. companies. Last year those imports approached $80 billion, about equal to what this

country imported from the Japanese.

Burdened for decades with some of the world's highest wage rates—and in the early 1980s with an overly strong dollar, as well—many U.S. companies moved manufacturing operations abroad. How else could they battle generous Japanese tax breaks, low Korean wages and Brazilian subsidies? Now protectionism threatens to hobble those very companies, and the danger to America's multinationals would be compounded if foreign countries retaliated with trade restrictions of their own.

Take Caterpillar Co. of Peoria, Ill., which makes backhoe loaders for the U.S. only in Britain and certain tractor models for the U.S. market only in Japan. In all, Cat brings about $500 million of goods into the U.S. from its foreign subsidiaries. That makes sense in a world that has—at least up until now—leaned toward free trade.

Another case is Texas Instruments, which every year ships just over $200 million of U.S.-made semiconductor parts to the Far East for assembly, then reimports them into the U.S. Or take USX Corp., which set up a joint venture that plans to import Korean ingot into this country to roll into finished steel. The list goes on.

"The harsh realities are that you have a highly interdependent world economy, and you can't erect barriers and expect not to produce negative ripple effects," says a senior executive with a major consumer electronics concern.

For example: In January, under pressure from the U.S., Canada put in place a 15% export tax on lumber headed for the U.S. The goal was to help U.S. lumber companies be more competitive, but a major casualty was Tacoma-based Weyerhaeuser Co. Every year that firm imports about $90 million in lumber from its Canadian subsidiary; this year that wood will cost Weyerhaeuser 15% more. So a U.S. corporation gets hurt, and U.S. consumers will have to pay higher prices—a bit more kindling on the embers of U.S. inflation.

More than any other, it's the U.S. auto industry that imports from foreign affiliates: $22 billion in 1984, as the most recent official figures show. Last year industry estimates indicate that General Motors imported $7.2 billion, or 8% of U.S. sales; Ford Motor, $6.3 billion, 13% of U.S. sales; and Chrysler, $4.5 billion, or 25% *(see chart)*.

The bulk of auto imports—$18 billion in 1984—came from Canada. (Under an auto pact with the U.S., Canada imports a like value of U.S.-made autos and auto parts.) But imports from elsewhere are growing even faster. GM last year imported 160,000 Sprints and Spectrums from its joint ventures in Japan with Isuzu and Suzuki. Market value: more than $1 billion. Next year GM begins a similar joint venture with Daewoo in Korea. Ford, meanwhile, imports Mercury Mercurs from Germany and plans within six months to import Tracers from Mexico and Festivas from Korea. Since 1983 Chrysler has doubled its imports from Mexico, where it builds LeBaron, Aries and Reliant models, among others.

After automakers, the U.S. manufacturers that import the most from foreign subsidiaries are electronics companies, at $7.5 billion a year. General Electric imports such items as cassette recorders and telephones, mainly from Asia, with a total value of about $500 million. IBM imports an estimated $1.5 billion a year in data processing equipment and other gear into the U.S., roughly 5% of its domestic sales. Apple Computer's Asian plants, by contrast, make all the company's Apple II computers. The Apple II line accounted for about $750 million, or an estimated 54% of Apple's U.S. sales last year.

Protectionism would disrupt such efficient arrangements. Says Chrysler economist Donald Hilty, "If tariffs are enacted, we would have to get out of foreign supply contracts as they expire, or we might even pay a penalty to get out of them sooner. . . . In the long run that would bring business back to the U.S." Meanwhile, the Japanese are taking no chances. They already have more than $30 billion of plant, property and equipment in the U.S. And the Koreans—as we've learned to expect—are following close behind.

The truth is that American manufacturers are in a bind. If they don't build plants overseas, high U.S. costs will force them to sacrifice market share to foreigners. If they continue to move operations abroad, they may well get caught in the protectionist snares. Ah, for the good old days when there were simple answers to tough questions. ■

Gary Hallgren

OUCH!

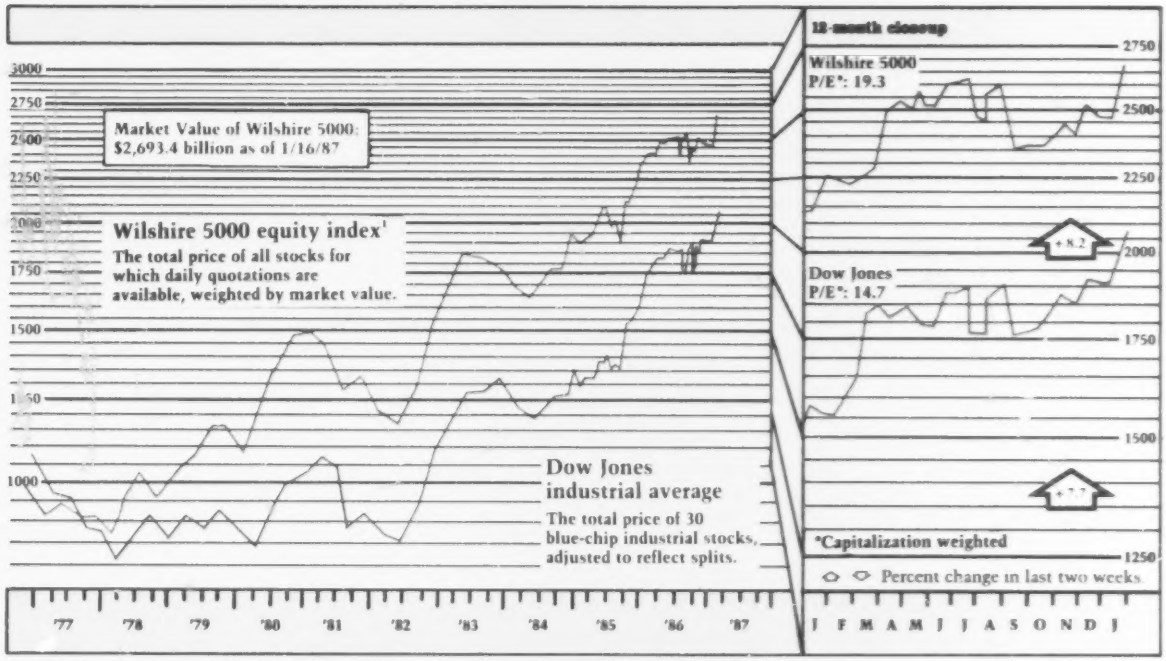
Tariffs miss the target. Many U.S. multinationals are net exporters, but remember, they import nearly $80 billion from their foreign plants and affiliates.

Company	Items imported	Value* ($millions)
General Motors	cars, trucks, parts	$7,200
Ford Motor	cars, trucks, parts	6,300
Chrysler	cars, trucks, parts	4,500
IBM	data processing gear	1,500
Apple Computer	Apple II computers	750
Caterpillar	backhoes, tractors, etc.	500
General Electric	tape recorders, telephones, clock radios	500
Texas Instruments	semiconductors	450
Kellwood	apparel	118
Weyerhaeuser	lumber	90

*Per year, based on Forbes and industry estimates.

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Throwing the bull around. In the two-week period reported on below, the P/E (against trailing earnings) of the Wilshire index shot up from 17.8 to 19.3. That's the highest multiple on the Wilshire since FORBES began measuring it over four years ago. In August of 1982 the market was trading at only 7.1 times latest 12-month earnings. Will the rally continue? Unless earnings rose sharply, a rising Wilshire index would soon be trading at more than 20 times earnings. During the last day of the two-week period the rally lost some of the momentum Wall Street built up as the Dow industrials ran right through the 2000 barrier. The Dow posted its 11th consecutive advance, but the Amex and Nasdaq scored minor declines.

Summing up the spectacular two weeks ended Jan. 16: The Dow advanced 7.7% and the average big board issue 7.9%. The Dow was up over 180 points since year-end 1986. The Amex finished the two-week stretch up 8.7%, and Nasdaq issues were up 10.4%.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	7.4	6.4	7.7	6.7	9.5	10.7
in last 52 weeks	24.5	21.7	35.1	26.5	17.4	17.9

Stock performance based on six key investor yardsticks

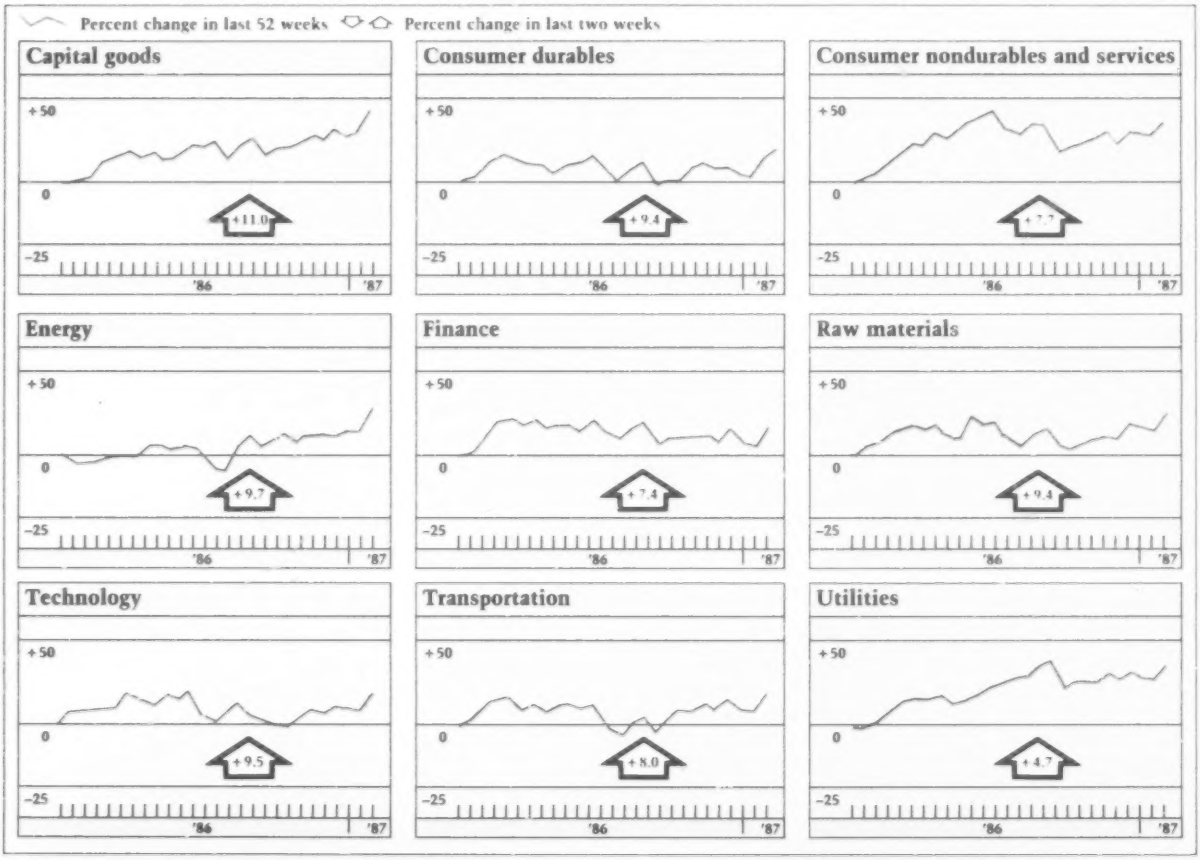
Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	7.3	13.6	19.5	5.8	11.9	7.9	6.0	16.2	21.0	5.3	6.9	14.7
in last 52 weeks	28.2	39.4	53.5	28.4	19.2	25.5	21.6	35.7	46.5	30.4	32.4	20.7

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 1/16/87. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Stars and aspiring stars. The Wilshire index is up more than 133% since the bull market began in August of 1982. The best stocks in this market have been consumer nondurables, which gained some 173%. Other big winners include consumer durables and finance shares, which show increases in excess of 160%. The three weakest groups were: energy, up 87%; technology, up 100%; and utilities, up 91%. Few utility investors are unhappy, since they purchased utility stocks primarily for their yields; compared on total return, utilities would be near the middle of the pack. Until now those who invested in energy and technology stocks have been disappointed. If there is additional life in this bull market, these two lagging groups may deserve a piece of the action.



What The Analysts Think

Problems with transportation. Security analysts made slight downward revisions across eight sectors, but they significantly pared back their 1987 forecasts for transportation shares. Estimates were cut for trucking firms, airlines, railroads and ocean shippers. Arkansas Best, a trucker, had its estimate cut the most, nearly 12%.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.63	17.8
1987 estimates	3.71	12.6
1988 estimates	NA	NA

NA: Not available.

Rank based on change in estimate	Sector	Estimated 1987 EPS	Estimated 1987 P/E	% change in 1987 estimate in 2 weeks	% change in 1987 estimate in 4 weeks
1	Finance	$3.83	9.0	–0.09%	–0.45%
2	Utilities	3.38	10.6	–0.09	–0.40
3	Raw materials	2.37	14.8	–0.19	–0.69
4	Capital goods	2.73	15.7	–0.33	–0.62
5	Consumer nondurables	2.43	15.4	–0.42	–0.35
6	Energy	2.36	16.0	–0.50	–1.49
7	Technology	2.88	13.8	–0.70	–1.44
8	Consumer durables	3.63	12.5	–0.85	–1.47
9	Transportation	2.54	12.7	–5.89	–6.08

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 1/16/87. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.

Confused by the seemingly endless proliferation of mutual funds and fund gimmicks? Don't be. Forget the frills and furbelows and stick to the basics.

Keep it simple

By William Baldwin

YOU MAY HAVE SEEN the full-page ads for the "revolutionary" Dreyfus Strategic funds. The bond fund will generate "high yields from sophisticated trading techniques." The stock fund will have "unusual flexibility to seek maximum returns in almost any kind of market." Sounds good. "Sophisticated." "Flexible." But forget the adjectives. What's "revolutionary" is the heavy turnover of puts, calls, futures, futures options and other exotics.

The Zweig Fund, a closed-end that came out last year, aims to make money in bear and bull markets by using hedging strategies. Terrific. Don't we all. But saying it is easier than doing it, and if Martin Zweig really has the secret, he will soon own the stock market. Oppenheimer Capital's Quest for Value Fund a month ago added "dynamic hedging" against market declines. More funds will no doubt follow, since the new tax law has loosened rules on short-term hedging gains.

Then there are the sector funds, concentrated in specific corners of the market. The idea itself is as old as mutual funds, but it has never worked well and probably won't now.

Is good investing really so complicated? We'll hazard a no in offering a simple philosophy of investing: The simplest is often the best. Put your money with managers of proven merit and let them invest using time-tested, old-fashioned methods. And, no matter how exotic the strategy, don't expect that you can get rewards without risks.

In this respect, Charles Ellis, partner in Greenwich Associates, the prominent pension consultant, is a man after our own heart. Ellis advises investors: "The biggest risk is getting intrigued by what's different rather than by what's important."

It's hard for the investor not to be intrigued by what promises to be different, what with 1,338 stock and bond funds currently clamoring for attention. Intrigued and somewhat dazed. Wasn't the whole idea of the fund industry to spare investors the worry of picking securities? The day is approaching when there will be as many funds to choose among as there are stocks on the New York Stock Exchange.

We can't cure the proliferation, but we do try to make the choosing a little easier. The table that begins on page 130 lists 334 stock and balanced funds that have been around long enough (about six years) for us to assign ratings. Following on page 138 are 129 bond funds, each with at least $100 million in assets. These are shown with a new measure of risk that puts the raw performance numbers in a better light.

Well, what about these hotshot new funds with all the gadgets and gimmicks that promise to beat both bull and bear markets? The three-month-old Dreyfus Strategic funds—Strategic Investing for stocks and Strategic Income for bonds—are much too young to be rated. So far they have but $44 million in assets between them. But they are worth a closer look, since they get to the heart of the matter of risk and reward. The enticement of these funds is that they are supposed to keep up with bull markets yet have the tools to hedge when the market is headed down.

Unlike many investors, FORBES has a long memory. Four years ago Prudential-Bache opened its Option Growth Fund, with the declared strategy of buying stocks and stock futures in bull markets and buying puts when the market is going down. Its performance has been rotten, more than 6 points a year behind the market.

What about bonds? Dreyfus Strategic Income says it will try to "en-

How to make 7% look like 14%

The Dreyfus Strategic Income Fund says it's getting 14% from bonds issued by Sallie Mae, the student loan finance agency. That's an extraordinarily high coupon from such a creditworthy borrower. There's a catch, though. The bonds are denominated in Australian dollars. If the Australian dollar falls as fast as currency traders expect, when the bonds mature Strategic Income will suffer an erosion of principal that will eat up half the coupon.

The exact arithmetic is messier, but in round numbers it works like this. Sallie Mae distributes a 14% coupon and gets back 7% from an anticipated drop in the Australian currency. Sallie Mae doesn't do loan business down under, and in fact is ultimately borrowing in U.S. dollars and repaying in U.S. dollars. It locks in its 7% net cost with currency hedges. Why all the beating about the bush? Because, demand for high-coupon bonds being what it is, Sallie Mae is able to save a tad on its borrowing costs this way.

But what's good for the astutely run Sallie Mae is bad for U.S. investors on the other side of the table. A bondholder could hedge his currency risk by shorting Australian dollars. But then he winds up with a plain old 7% bond—a tad worse than he could have gotten from a conventional Sallie Mae bond.

The other possibility, of course, is that the bondholder doesn't hedge the currency. That, says Albert Lord, Sallie Mae's chief financial officer, is equivalent to buying a 7% U.S. dollar bond and simultaneously making a side speculation on Aussie dollars.

If the investor is a fund, however, there is a certain perverse logic to the investment, with or without a currency hedge. A fund doing this trade would calculate a "yield" of 14%, while burying the expected 7% loss as a capital loss, a drop in net assets per share.

The Dreyfus fund is doing just fine, for now. Manager Barbara Kenworthy has not yet hedged away her currency exposure, and since she bought the bonds the Australian dollar has been much firmer than expected. As a result, the fund has been making not only the 7% true yield on the bond but also some side profits on its invisible currency position.—**W.B.**

hance income" yet "limit risk." Consider this dilemma: Short-term Treasury bills pay about 5%, long-term Treasury bonds 7% to 8%. Should interest rates shoot up, however, funds that buy the bonds will suffer murderous capital losses. So why not buy the bonds for the nicer yield and cover your risk by selling bonds short in the futures market?

Because that won't get you anywhere, explains MIT Professor Robert Merton. You'll get a price on the future just crummy enough to wipe out the yield advantage. "If the futures on T bonds are properly priced, and you go long T bonds and short T bond futures, you're just going to end up earning the short-term rate," he says.

A sample of recent trades at the Dreyfus Strategic funds gives some hints of what they can and can't accomplish. Merton doesn't rule out the possibility that bond futures will be slightly mispriced sometimes, enabling a trader to pick up an extra return. But there are no free lunches, only an occasional hors d'oeuvre.

Stanley Druckenmiller, the 33-year-old manager of Strategic Investing, is telling how he can beat the market. The other day, he says, he sold short some puts on the S&P's 100. That's a way of "simulating" a long position, he says—of being bullish on stocks.

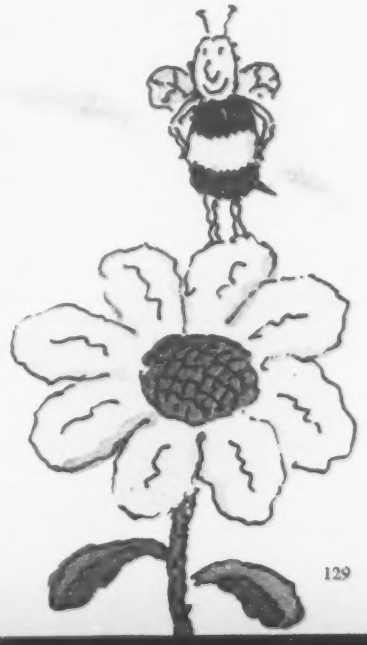
"It is mathematically true," he says, "that if we hold these put [positions] until they expire, what they are simulating will have outperformed the S&P's 100." Suppose, he says, the put exercise price is 240 when the underlying stocks are trading at 236. The value of the put, if exercised immediately, is $4. But he'll get a little extra, more like $5.50, when he sells the put. The $1.50 is gravy. So he'll beat the fellow who bought the stocks the old-fashioned way, he says.

Really? Is the rest of Wall Street that dumb? Not quite. True, over a wide range of possible outcomes Druckenmiller comes out ahead. But not all. What if stocks shoot up from 236 to 250 before the puts expire (which is just what happens after our interview)? Then, Druckenmiller concedes, he could come out behind. He has his $5.50, but he's missed a much larger gain. Moral: There are no free lunches. Nor are there any certified geniuses who have shown an ability to call bull and bear markets year after year.

Barbara Kenworthy, the 41-year-old manager of Strategic Income, the bond fund, aims to get a 10% yield before expenses on fairly safe bonds—not easy when safe bonds are paying much less. How is she doing that? On New Year's Eve a spike in overnight money rates enabled her to get 20% interest on a fourth of her assets for two days. Nice move, but it will add only about 0.02% to her annual performance. No, the big-ticket item on her way to 10% is some 14% Australian-dollar bonds *(see box)*. Why do those bonds carry so high a yield? Because of the currency risk in the Australian dollar. Strip away the complexity, and Kenworthy is simply speculating on currency futures. Is this what a bond fund investor wants?

Yes, "sophisticated" trading strategies can deliver profits from occasional pricing disparities. But these Dreyfus funds levy a 3% upfront load, plus a 0.25% annual marketing fee. Kenworthy and Druckenmiller are going to have to work hard to keep the investor even. They may end up making more money for brokers and their sponsors than for their investors.

Considering how difficult it is for most professionals to match the market, let alone beat it, our advice is stodgy but sound: Keep it simple. Trust proven managements, not trumpeted gimmicks. Distrust promises of miracles—in particular, anything that purports to enhance performance and reduce risk at the same time. On the following pages, FORBES updates its annual mutual fund rankings to help readers pick the best consistent performers. ■



Fund Ratings

Stock and balanced funds

On these pages are 334 mutual funds with at least $10 million in assets rated by FORBES on the basis of their performance to Dec. 31, 1986. Stock funds and balanced funds, although listed together, were evaluated and ranked separately in the grading process. To be rated, a fund must go back at least two full market cycles—that is, to Nov. 30, 1980. Funds that have been around for the full evaluation period, which starts Sept. 30, 1976, are graded over three market cycles. Raw data are from CDA Investment Technologies in Bethesda, Md.

Fund	Performance in UP —markets—	DOWN	12-month total return
ABT Growth & Income Trust	C	D	16.8%
ABT Utility Income Fund	D	B	18.3
Acorn Fund	B	A	16.7
Adams Express	D	B	16.0
Affiliated Fund	C	B	22.9
Afuture Fund	B	C	–5.9
Alpha Fund	C	B	13.1
AMA Growth Fund	D	B	11.0
Amcap Fund	B	A	15.6
American Balanced Fund	C	B	16.8
American Capital Comstock Fund	C	A+	13.5
American Capital Convertible Secs	A	B	15.1
American Capital Enterprise Fund	A	D	10.2
American Capital Harbor Fund	A+	D	13.4
American Capital Pace Fund	B	A+	10.8
American Capital Venture Fund	B	A	4.4
American Growth Fund	D	A	6.3
American Investors Fund	B	D	–1.7
American Leaders Fund	D	B	14.6
American Mutual Fund	D	A	18.4
American National Growth Fund	B	B	10.9
American National Income Fund	D	A	8.0
AMEV Capital Fund	A	C	21.5
AMEV Growth Fund	A+	C	19.5
Analytic Optioned Equity Fund	D	A	10.5
Armstrong Associates	B	D	11.3
ASA Limited	A	C	89.5
Axe-Houghton Fund B	B	D	23.1
Axe-Houghton Stock Fund	B	F	10.9
David L. Babson Growth Fund	D	D	18.8
Bailard, Biehl & Kaiser Intl	C	C	61.7
Baker, Fentress & Co	B	B	9.6
Bancroft Convertible Fund	A	D	12.4
Boston Co Capital Appreciation	C	C	22.5
Bull & Bear Capital Growth Fund	B	D	3.6
Bullock Balanced Shares	C	C	19.0
Bullock Dividend Shares	D	C	21.3
Bullock Growth Shares	C	C	15.7

Fund	Performance in UP —markets—	DOWN	12-month total return
Canadian Fund	D	D	2.7%
Cardinal Fund	C	B	19.3
Castle Convertible Fund	C	A	6.1
Central Securities	B	D	8.8
Century Shares Trust	D	A	9.4
Charter Fund	B	B	17.6
Chemical Fund	C	D	11.5
Cigna Growth Fund	C	D	12.6
Claremont Capital	B	A+	13.5
Colonial Fund	B	D	21.5
Colonial Growth Shares	B	D	19.1
Colonial Option Income I	F	B	4.5
Columbia Growth Fund	A	C	6.8
Commerce Income Shares	C	C	10.4
Commonwealth Indenture A & B	D	A	13.9
Commonwealth Indenture C	F	B	12.3
Composite Bond & Stock Fund	C	D	14.1
Composite Growth Fund	D	B	19.7
Constellation Growth Fund	A+	F	27.8
Convertible Yield Securities	B	D	4.6
Corp Leaders Trust Fund Series B	D	C	26.0
Country Capital Growth Fund	C	D	8.4
Dean Witter Industry-Valued Secs	C	C	16.1
Decatur Income Fund	D	A	21.9
Delaware Fund	D	B	11.0
Delta Trend Fund	B	B	5.3
deVegh Mutual Fund	C	D	8.2
Dodge & Cox Balanced Fund	B	D	19.1
Dodge & Cox Stock Fund	C	C	18.8
Drexel Burnham Fund	C	B	22.0
Dreyfus Convertible Securities	C	C	24.3
Dreyfus Fund	D	B	16.3
Dreyfus Growth Opportunity Fund	A	C	15.0
Dreyfus Leverage Fund	B	B	18.8
Dreyfus Third Century Fund	B	C	4.6
Eaton & Howard Stock Fund	D	C	15.6
Eaton Vance Growth Fund	C	B	10.5
Eaton Vance Income Fund of Boston	D	B	14.9

Note: Funds included if they had over $10 million in net assets on Sept. 30, 1986 and have been in existence since 11/30/80.

Fund Ratings

Stock and balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
Eaton Vance Investors Fund	B	C	8.9%
Eaton Vance Special Equities Fund	B	B	–1.6
Energy Fund	C	C	10.2
Engex	A	D	8.3
Evergreen Fund	A+	B	13.2
Evergreen Total Return Fund	C	A	20.2
Fairfield Fund	A	F	3.5
Farm Bureau Growth Fund	D	C	9.5
Federated Stock & Bond Fund	D	B	13.8
Fidelity Contrafund	C	D	18
Fidelity Destiny Portfolio I	B	A	17.6
Fidelity Discoverer Fund	B	C	15.1
Fidelity Equity-Income Fund	C	A	16.8
Fidelity Fund	C	C	15.4
Fidelity Magellan Fund	A+	A	23.6
Fidelity Puritan Fund	D	A	20.8
Fidelity Trend Fund	B	D	13.5
Financial Dynamics Fund	C	B	5.8
Financial Industrial Fund	C	C	8.2
Financial Industrial Income Fund	D	A	14.6
First Investors Discovery Fund	C	C	–14.7
First Investors Fund for Growth	B	D	–5.3
First Investors Natural Resources	D	F	–18.7
First Investors Option Fund	F	A	6.1
44 Wall Street Fund	A	C	–16.3
Founders Equity Income Fund	F	A	14.5
Founders Growth Fund	B	D	19.3
Founders Mutual Fund	C	D	16.8
Founders Special Fund	A	C	18.9
FPA Capital Fund	D	D	12.6
FPA Paramount Fund	D	A	5.5
Franklin Custodian–Dynatech	B	D	–5.8
Franklin Custodian–Growth	D	C	14.7
Franklin Custodian–Income	C	A	19.3
Franklin Custodian–Utilities	D	A+	23.7
Franklin Equity Fund	B	C	19.0
Franklin Gold Fund	A	C	30.7
Franklin Option Fund	D	B	7.6
Fund of America	C	B	6.6
Fund of the Southwest	B	C	–1.6
Fundamental Investors	D	B	21.8
Gateway Option Income Fund	F	B	12.6
General American Investors	A	C	10.0
General Securities	D	C	9.0%
Golconda Investors	D	D	35.0
Greenway Fund	B	D	9.7
Growth Fund of America	A	A	16.0
Growth Industry Shares	B	C	9.1
GT Global Growth Funds-Pacific	F	A	70.0
Guardian Mutual Fund	B	B	11.9
Guardian Park Ave Fund	B	B	18.1
Hamilton Funds	C	D	19.8
John Hancock Growth Trust	A	F	13.8
Hartwell Growth Fund	A	D	24.4
Hartwell Leverage Fund	A+	D	19.3
IDS Equity Plus	C	D	18.1
IDS Growth Fund	A+	C	19.5
IDS Mutual	C	C	21.3
IDS New Dimensions Fund	A	C	19.1
IDS Progressive Fund	C	B	9.9
IDS Stock Fund	D	C	19.6
Income Fund of America	D	A	15.2
International Investors	A	C	34.2
Investment Company of America	C	B	21.3
Investment Trust of Boston	C	F	11.9
Investors Research Fund	A+	D	28.3
ISI Growth Fund	F	A	–1.3
ISI Trust Fund	F	A+	6.1
Ivy Growth Fund	C	B	16.8
Janus Fund	B	A	11.2
Japan Fund	D	A	67.5
JP Growth Fund	D	B	13.9
Kemper Growth Fund	A	D	12.4
Kemper Option Income Fund	F	A	2.5
Kemper Summit Fund	A	C	13.9
Kemper Total Return Fund	A+	D	17.5
Keystone Custodian K-1	D	C	16.0
Keystone Custodian K-2	C	D	21.3
Keystone Custodian S-1	D	D	16.4
Keystone Custodian S-3	B	D	15.0
Keystone Custodian S-4	A	D	7.6
Keystone International Fund	D	C	47.9
Keystone Precious Metals Holdings	A	C	39.9
Lehman Capital Fund	A	B	13.9
Lehman Corp	C	C	14.4
Lehman Investors Fund	C	C	14.6

Note: Funds included if they had over $10 million in net assets on Sept. 30, 1986 and have been in existence since 11/30/80.

Fund Ratings

Stock and balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
Lehman Opportunity Fund	B	B	6.4%
Lepercq-Istel Fund	C	D	8.2
Lexington Growth Fund	B	C	20.6
Lexington Research Fund	C	C	20.2
Lindner Fund	D	A+	13.8
Loomis-Sayles Capital Development	A	B	27.6
Loomis-Sayles Mutual Fund	B	C	24.9
Lord Abbett Developing Growth	B	D	0.4
Mairs & Power Growth Fund	C	C	11.5
Manhattan Fund	B	C	17.0
Horace Mann Growth Fund	C	D	12.1
Mass Capital Development Fund	A	B	6.1
Mass Financial Development Fund	B	D	13.1
Mass Financial Total Return Trust	B	C	19.9
Mass Investors Growth Stock Fund	B	D	12.5
Mass Investors Trust	C	D	17.6
Mathers Fund	B	B	12.9
Medical Technology Fund	A	D	15.3
Meeschaert Capital Accumulation	F	A	13.7
Merrill Lynch Basic Value Fund	C	B	17.2
Merrill Lynch Capital Fund	D	B	19.5
Merrill Lynch Equi-Bond I Fund	F	B	11.3
Merrill Lynch Pacific Fund	D	A	77.9
Merrill Lynch Special Value	B	D	1.7
MidAmerica High Growth Fund	D	B	8.7
MidAmerica Mutual Fund	D	B	11.7
Mutual Benefit Fund	D	C	22.3
Mutual of Omaha Growth Fund	D	D	15.9
Mutual of Omaha Income Fund	F	B	9.3
Mutual Qualified Income Fund	D	A	16.9
Mutual Shares Corp	C	A+	16.9
National Aviation & Technology	C	C	15.3
National Growth Fund	C	F	15.5
National Industries Fund	D	D	9.7
National Stock Fund	D	C	15.3
National Total Income Fund	B	A	22.2
National Total Return Fund	A	C	19.2
Nationwide Fund	D	B	17.5
Nationwide Growth Fund	C	B	18.2
Neuwirth Fund	A	F	8.1
New England Equity Income[1]	D	A	21.9
New England Growth[2]	A	B	18.3
New England Retirement Equity[3]	C	B	23.4
New Perspective Fund	C	B	26.8%
New York Venture Fund	A	C	22.8
Newton Growth Fund	B	D	9.1
Niagara Share Corp	A	F	11.4
Nicholas Fund	B	A+	11.7
North Star Regional Fund	B	C	22.8
North Star Stock Fund	D	B	12.9
Northeast Investors Growth	B	C	24.3
Nova Fund	C	C	7.7
Omega Fund	B	D	12.2
One Hundred Fund	B	D	20.0
Oppenheimer AIM Fund	A+	D	46.4
Oppenheimer Directors Fund	A	D	4.5
Oppenheimer Equity Income Fund	C	B	15.8
Oppenheimer Fund	B	F	2.2
Oppenheimer Premium Income	F	A	1.2
Oppenheimer Special Fund	B	B	15.1
Oppenheimer Time Fund	A	C	19.1
Over-the-Counter Securities Fund	B	A	5.4
Partners Fund	B	A	17.3
Pax World Fund	D	C	8.4
Penn Square Mutual Fund	D	C	12.9
Pennsylvania Mutual Fund	B	A	10.9
Petroleum & Resources Corp	B	D	14.4
Philadelphia Fund	C	C	8.4
Phoenix Convertible Fund	D	A	17.4
Pilgrim MagnaCap Fund	D	B	16.8
Pilot Fund	C	D	10.6
Pine Street Fund	C	C	14.3
Pioneer Fund	C	C	11.7
Pioneer II	B	A	12.3
T Rowe Price Growth Stock Fund	C	D	21.7
T Rowe Price International Fund	C	B	60.6
T Rowe Price New Era Fund	A	D	16.2
T Rowe Price New Horizons Fund	A	C	–0.1
Princor Capital Accumulation Fund[4]	D	A	11.8
Princor Growth Fund[5]	B	D	13.0
Provident Fund for Income	D	A+	12.4
Putnam Convertible Income-Growth	D	A	15.7
Putnam Energy-Resources Trust	D	D	–2.3
Putnam Fund for Growth & Income	C	B	21.9
George Putnam Fund of Boston	B	C	18.8
Putnam International Equities	C	B	38.0

Note: Funds included if they had over $10 million in net assets on Sept. 30, 1986 and have been in existence since 11/30/80.
[1]Formerly NEL Equity Fund. [2]Formerly NEL Growth. [3]Formerly NEL Retirement Equity. [4]Formerly BLC Capital Accumulation. [5]Formerly BLC Growth.

Fund Ratings

Stock and balanced funds

Fund	Performance in UP —markets—	DOWN	12-month total return
Putnam Investors Fund	B	D	15.0%
Putnam Option Income Trust	F	B	11.7
Putnam Vista Basic Value	B	B	19.4
Putnam Voyager Fund	A	C	20.2
Quasar Associates	A+	C	11.4
Quest for Value Fund	B	A	14.3
Safeco Equity Fund	C	C	12.6
Safeco Growth Fund	B	B	1.8
Safeco Income Fund	D	B	20.0
Scudder Capital Growth Fund	A	D	16.5
Scudder Development Fund	B	B	7.6
Scudder Growth & Income Fund	B	D	17.8
Scudder International Fund	C	B	50.5
Security Equity Fund	A	D	13.1
Security Investment Fund	D	C	11.6
Security Ultra Fund	A	D	5.1
Selected American Shares	D	B	17.0
Selected Special Shares	C	D	7.4
Seligman Capital Fund	A	D	18.3
Seligman Common Stock Fund	B	C	22.1
Seligman Growth Fund	B	D	16.5
Seligman Income Fund	D	B	17.0
Sentinel Balanced Fund	D	B	19.0
Sentinel Common Stock Fund	D	A	23.7
Sentinel Growth Fund	A	D	12.9
Sentry Fund	B	C	15.1
Sequoia Fund	D	A+	12.6
Shearson Appreciation Fund	B	B	20.0
Sigma Capital Shares	B	B	11.4
Sigma Investment Shares	D	B	25.3
Sigma Special Fund	B	C	16.5
Sigma Trust Shares	D	B	18.3
Sigma Venture Shares	A	B	5.3
Smith Barney Equity Fund	B	C	16.2
Smith Barney-Income & Growth	D	A	21.3
Sogen International Fund	C	A	25.1
Source Capital	C	A+	13.7
Sovereign Investors	D	A	21.9
State Bond Common Stock Fund	C	D	13.9
State Bond Diversified Fund	D	C	19.8
State Street Investment Corp	C	C	12.0
Steadman Associated Fund	F	B	2.8
Stein Roe & Farnham Capital Opp	A+	D	16.8
Stein Roe & Farnham Stock Fund	A	F	17.4%
SteinRoe Special Fund	A	C	14.8
SteinRoe Total Return Fund	A	F	16.9
SteinRoe Universe Fund	B	D	13.2
Strategic Investments Fund	A	F	28.3
Stratton Growth Fund	C	C	11.8
Stratton Monthly Dividend Shares	D	A+	20.4
Surveyor Fund	B	D	14.0
Technology Fund	B	D	14.2
Templeton Growth Fund	C	A	21.3
Templeton World Fund	C	B	17.9
Transatlantic Fund	C	D	51.7
Tri-Continental Corp	B	D	22.3
Tudor Fund	A	B	12.4
20th Century Growth Investors	A+	C	19.4
20th Century Select Investors	A+	B	20.7
Unified Mutual Shares Fund	D	C	11.6
United Accumulative Fund	C	C	17.5
United Continental Income Fund	A	C	18.5
United Income Fund	C	B	22.3
United International Growth	C	B	28.8
United Science & Energy Fund	C	D	18.1
United Services-Gold Shares Fund	A	C	37.5
US Trend Fund	B	B	9.4
United Vanguard Fund	B	B	17.7
USAA Mutual-Growth Fund	C	D	9.8
Value Line Fund	B	B	16.7
Value Line Income Fund	D	A	16.3
Value Line Leveraged Growth Inv	B	A	23.3
Value Line Special Situations	A	B	5.1
Vance, Sanders Special Fund	C	A	-5.5
Vanguard Explorer Fund	A	B	-8.7
Vanguard Index Trust	C	D	16.9
Vanguard WL Morgan Growth Fund	B	C	7.8
Vanguard Naess & Thomas Special	B	C	0.1
Vanguard Qualified Dividend I	D	A+	21.6
Vanguard Trustees' Commingled-US	C	C	15.6
Vanguard Wellesley Income Fund	D	A	18.4
Vanguard Wellington Fund	B	D	18.2
Vanguard Windsor Fund	C	A	20.2
Washington Mutual Investors	D	A	22.5
Weingarten Equity Fund	A+	C	24.4
WPG Fund	A	D	11.5

Note: Funds included if they had over $10 million in net assets on Sept. 30, 1986 and have been in existence since 11/30/80.

Fund Ratings

Bond and preferred stock funds

Please resist the temptation to read the yield column first. It is one of the first things people want to know about a bond fund. But, taken out of context, this information can be harmful to your investment health.

Consider, for example, the American Capital High Yield Investment Fund. Bond fund buyers who shop for income might think this is a terrific investment. Its income dividends last year came to a rich 13.7% of year-end net assets.

But what does it profit an investor to gain a big yield and lose his principal? Look at the total return column. That column is the real bottom line. It combines interest yield with capital gains or losses. American Capital High Yield had a total return last year of 6.7%—meaning it lost a chunk of its investors' capital. If you started with $1,000 and reinvested dividends at the end of every month you were $67 ahead at year-end. Pretty lousy during a bull market for bonds.

There's a thriving business these days in pumping up yields on funds. What the funds are doing, in effect, is taking away some of your principal and handing it back to you and calling it income. There are a lot of ways to play this game, from buying junk bonds to buying U.S. bonds with goofy foreign-currency provisions *(see box, p. 129).*

Besides total return, you also need to know how much risk the managers took to achieve whatever total return they showed. Last year it was easy to make money in bonds, because interest rates fell. Sure, but rates sometimes go up. What happens if interest rates rise in 1987? Some of the same guys who made the most last year will lose the most this year. So a good return last year may be more luck than genius if it was accomplished simply by buying the bonds most sensitive to interest rate changes.

Which ones are those? Other things being equal, longer-maturity bonds are the most sensitive. But bond call provisions and the size of coupons also play a role.

Rather than look merely at average maturities, we computed rate-risk levels by comparing a fund's results month by month over the past two years to the Merrill Lynch Corporate/Government bond index. This may sound complicated, but it really isn't: We are simply measuring fluctuations in each fund's asset value against fluctuations in the market. No rating is shown if the fund is less than two years old or if it historically has not tracked the overall bond market.

Most of the raw data on the funds are from CDA Investment Technologies in Bethesda, Md.

Fund	—12 months— total return	yield	Interest rate risk
Alliance Bond Fund-High Yield	11.0%	13.6%	
Alliance Bond Fund-US Govt	10.0	11.2	
Alliance Mortgage Secs Income	11.1	10.9	low
American Capital Bond Fund	10.2	9.7	
American Capital Corp Bond	11.4	11.2	average
American Capital Govt Secs	10.5	7.7	average
American Capital High Yield Inv	6.7	13.7	
American Funds Inc-US Govt Guar	12.3	9.8	
AMEV Securities	13.9	9.6	average
Benham Govt Income-GNMA	11.5	9.8	
Bond Fund of America	15.1	10.1	average
Bull & Bear High Yield Fund	6.0	13.6	
Bullock High Income Shares	4.6	14.0	
Cigna High Yield Fund	15.9	11.7	
Cigna Income Fund	18.0	7.8	very high
Colonial Govt Securities Plus	15.6	7.8	high
Colonial High Yield Securities	14.8	12.2	
Colonial Income Fund	12.2	11.2	average
Columbia Fixed Income Securities	12.5	9.2	average
Criterion Bond-Investment Qual	15.4	9.2	very high
Criterion Bond-US Govt Hi Yield	5.9	8.0	
Dean Witter High Yield Secs	16.5	12.8	

Fund	—12 months— total return	yield	Interest rate risk
Dean Witter US Govt Securities	8.3%	10.0%	
Delchester Bond Fund	16.8	12.6	average
Drexel Series-Government Secs	10.7	9.5	
Dreyfus A Bonds Plus	13.9	8.9	high
Dreyfus GNMA Fund	9.5	9.3	
Eaton Vance Govt Obligations	13.3	9.7	average
Federated GNMA Trust	10.9	9.8	low
Federated High Income Securities	12.4	12.2	
Federated High Yield Trust	15.9	12.0	
Federated Income Trust	9.8	9.7	
Federated Intermediate Govt	11.9	8.6	low
Federated Short-Intermed Govt	9.5	8.4	very low
Fidelity Flexible Bond Fund	13.7	9.5	high
Fidelity Ginnie Mae	13.0	8.7	
Fidelity Government Securities	14.7	8.9	average
Fidelity High Income Fund	18.1	11.4	average
Fidelity Mortgage Securities	11.0	9.5	low
Fidelity Thrift Trust	13.1	5.7	high
First Investors Bond Apprec	11.5	10.2	
First Investors Fund for Income	13.0	12.8	
First Investors Government Fund	12.4	9.1	low
Fort Dearborn Income Secs	18.6	8.5	

Note: Funds included if they had over $100 million in net assets on Sept. 30, 1986 and have been in existence since 12/31/85.

Fund Ratings

Bond and preferred stock funds

Fund	—12 months— total return	yield	Interest rate risk
Franklin AGE High Income Fund	12.8%	13.3%	
Franklin Custodian-US Govt	10.6	11.3	low
Fund for US Govt Securities	8.6	10.0	
John Hancock Bond Trust	13.6	9.7	high
John Hancock Income Securities	14.6	9.3	
John Hancock Investors	15.0	9.2	
John Hancock US Govt Guar Mort	11.4	9.6	
John Hancock US Govt Securities	14.5	8.5	high
Home Investors Govt Guar Income	9.1	8.4	
Hutton Invest-Bond & Income	21.8	9.3	very high
Hutton Invest-Government Secs	16.3	11.2	average
IDS Bond Fund	20.3	9.2	high
IDS Extra Income Fund	16.4	10.8	average
IDS Federal Income Fund	12.5	8.3	
IDS Selective Fund	18.0	8.9	high
InterCapital Income Securities	16.4	10.4	average
Investment Portfolios-Govt Plus	11.6	8.0	average
Investment Portfolios-High Yield	18.6	8.7	low
Kemper High Yield Fund	18.2	11.0	low
Kemper Income & Capital Preserv	14.5	10.3	average
Kemper US Govt Securities	16.2	10.5	high
Keystone Custodian B-1	13.6	9.0	high
Keystone Custodian B-2	12.5	10.1	average
Keystone Custodian B-4	9.3	12.4	
Kidder Peabody Govt Income	7.0	7.7	
Lexington GNMA Income Fund	11.9	9.1	low
Lord Abbett Bond-Debenture Fund	10.5	11.6	
Lord Abbett US Govt Securities	15.0	10.6	average
Mass Financial Bond Fund	16.3	10.0	high
Mass Financial High Income Trust	10.8	13.5	
Mass Financial Intl-Bond	37.9	7.2	
MassMutual Corporate Investors	27.4	10.1	
MassMutual Income Investors	10.8	11.2	
Merrill Lynch Corp Bond-Hi Inc	12.9	11.7	
Merrill Lynch Corp Bond-Hi Qual	13.8	9.0	average
Merrill Lynch Federal Securities	12.8	8.7	average
MFS Government Guaranteed Secs	10.2	9.5	low
Montgomery Street Income Secs	13.9	10.0	high
National Bond Fund	5.4	14.7	average
National Federal Securities	9.6	10.7	average
New England Life Government Secs	12.0	7.7	
Northeast Investors Trust	20.4	10.7	
Oppenheimer High Yield Fund	9.7	13.4	

Fund	—12 months— total return	yield	Interest rate risk
Oppenheimer US Government	11.9%	9.5%	
PaineWebber Fixed Inc-GNMA	11.1	11.6	low
PaineWebber Fixed Inc-High Yield	14.1	13.5	low
PaineWebber Fixed Inc-Inv Grade	14.4	11.2	average
Phoenix High Yield Fund	15.9	12.4	
Pilgrim GNMA Fund	6.5	10.4	
T Rowe Price GNMA Fund	11.0	9.0	
T Rowe Price High Yield Fund	15.0	11.9	
T Rowe Price New Income Fund	13.9	8.4	average
T Rowe Price Short-Term Bond	8.3	7.4	
Prudential-Bache GNMA Fund	10.6	7.7	average
Prudential-Bache Govt Plus	11.6	6.8	
Prudential-Bache Govt-Intermed	13.1	9.1	average
Prudential-Bache High Yield Fund	14.9	9.8	
Putnam High Income Government	14.2	8.9	
Putnam High Yield Trust	13.5	13.6	
Putnam Income Fund	12.6	10.7	average
Putnam US Govt Guaranteed Secs	11.0	10.2	very low
Scudder Govt Mortgage Secs	10.5	8.4	
Scudder Income Fund	14.6	9.1	average
Shearson High Yield Fund	11.5	11.8	
Shearson Lehman-Long Term Govt	10.3	6.5	
Shearson Managed Governments	10.6	9.0	low
Smith Barney-US Government	10.8	10.3	
SteinRoe Managed Bonds	16.3	9.0	high
Thomson McKinnon Income Fund	10.6	10.8	low
Thomson McKinnon US Govt	12.5	8.5	
Transamerica Income Shares	18.0	9.7	average
20th Century US Govt Investors	9.9	8.4	very low
United Bond Fund	15.1	8.7	very high
United Government Securities	16.9	8.5	very high
United High Income Fund	14.7	12.4	
USAA Mutual-Income Fund	12.6	10.7	average
Value Line US Government Secs	10.7	10.3	average
Van Kampen Merritt US Govt	13.8	10.9	average
Vanguard Fixed Income-GNMA	11.8	10.0	low
Vanguard Fixed Income-Hi Yld	16.1	11.2	low
Vanguard Fixed Income Inv Grade	14.3	10.3	average
Vanguard Fixed Income-Short Term	11.4	8.2	
Vanguard Qualified Dividend II	24.7	8.9	
Vanguard Qualified Dividend III	4.2	7.4	
Yes Fund	8.5	10.8	average

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